

Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 EB-03 OES-02 INR-05

CIAE-00 L-01 SP-02 INRE-00 SSO-00 PRS-01 RSC-01 EA-06

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 5109

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

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C O N F I D E N T I A L SECTION 01 OF 02 PARIS 29935

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, FR

SUBJECT: MFA THINKING ON PRODUCER-CONSUMER CONFERENCE

REF: PARIS 29934

1. BRUNET, DIRECTOR OF ECONOMIC AFFAIRS, MFA, READING FROM A TEXT PREPARED IN THE MFA, HAS INDICATED TO ECON/COM MIN CURRENT MFA THINKING ON THE SUBJECT MATTER WHICH THE TRIPARTITE CONFERENCE OF ENERGY PRODUCERS AND CONSUMERS PROPOSED BY GISCARD COULD DISCUSS.

ALTHOUGH THESE WERE VIEWS OF THE MFA, BRUNET SAID HE THOUGHT THEY WOULD PROBABLY BE PUT FORWARD WITHOUT
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SIGNIFICANT CHANGE BY GISCARD AT MARTINIQUE.

2. IN THE SHORT TERM, BRUNET BEGAN, THE GOF DOES NOT BELIEVE THAT THE PRODUCERS WILL LOWER PRICES, BUT IN THE LONGER TERM EFFORTS BY THE CONSUMERS TO REDUCE CONSUMPTION AND DEVELOP ALTERNATIVE SOURCES OF ENERGY WOULD BRING ABOUT A REDUCTION IN PRICE. THIS WAS DESIRABLE NOT ONLY BECAUSE OF THE EFFECT HIGH PRICES HAD ON THE ECONOMIES OF THE CONSUMERS, BUT BECAUSE THE HUGE RESERVES WHICH WOULD PILE UP IN THE HANDS OF THE PRODUCERS AT PRESENT LEVELS WOULD NOT ONLY UPSET THE INTERNATIONAL MONETARY ORDER BUT WOULD ALSO LEAD THE PRODUCERS TO CUT BACK PRODUCTION, SINCE AT CURRENT PRODUCTION AND PRICE LEVELS, THEY WOULD GET MORE MONEY THAN THEY WANTED OR COULD USE.

3. UP TO THIS POINT, BRUNET NOTED, THE U.S. AND THE FRENCH ANALYSES COINCIDED. THE FRENCH PROPOSAL FOR A CONFERENCE WAS DESIGNED TO OBTAIN ACCEPTANCE OF THIS ANALYSIS BY THE PRODUCERS AND TO CONCILIATE THE POSITIONS OF THE TWO GROUPS THROUGH MUTUAL CONCESSIONS. AT A CONFERENCE THE PRODUCERS WOULD HAVE TO BE TOLD THAT THEY MUST LOWER PRICES. BUT THEY WOULD NOT AGREE TO DO THIS WITHOUT RECEIVING SOMETHING IN RETURN. AS THE FRENCH SEE IT, WHAT THEY NEED IN RETURN IS A DEVICE FOR PROTECTING THEIR EARNINGS IN THE FUTURE WHEN THE CONSUMERS' EFFORTS TO REDUCE THEIR DEPENDENCE ON IMPORTED OIL HAVE BEGUN TO BEAR FRUIT. THE FRENCH BELIEVED, IN OTHER WORDS, THAT THE PRODUCERS MUST BE OFFERED SOME FORM OF INDEXATION OF OIL PRICES, THAT IS, OIL PRICES SHOULD BE CORROLATED WITH THE PRICE OF OTHER PRODUCTS OR GOODS. THE FRENCH HAD NO FIRM IDEAS ON OTHER PRODUCTS TO WHICH OIL PRICES SHOULD BE INDEXED OR HOW INDEXATION WOULD WORK. BUT THEY WERE CONVINCED THAT WITHOUT SOME FORM OF INDEXATION, THE PRODUCERS WOULD NEVER CONSENT TO LOWER PRICES.

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4. IN THE FINANCIAL FIELD, BRUNET CONTINUED, THE CONSUMERS MUST OFFER THE PRODUCERS LONG-TERM INVESTMENT OPPORTUNITIES WITH AN ADEQUATE AND GUARANTEED RETURN. OTHERWISE THEY WOULD REDUCE PRODUCTION RATHER THAN TO ALLOW UNPRODUCTIVE ASSETS TO PILE UP.

5. THE DANGER WITH THESE IDEAS, BRUNET RECOGNIZED, WAS THAT PRODUCERS OF OTHER RAW MATERIALS MIGHT CALL FOR SIMILAR GUARANTIES. THE GOF WAS OPPOSED TO THIS. IT WANTED THE CONFERENCE TO DISCUSS ONLY OIL. THE FRENCH RECOGNIZED, HOWEVER, THAT AT LEAST AT THE OUTSET OF THE CONFERENCE, IT WOULD BE NECESSARY TO TALK ABOUT OTHER CONFIDENTIAL

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RAW MATERIALS AS WELL, BUT THIS TALK WOULD NOT GET VERY FAR AND THE CONFERENCE WOULD EVENTUALLY CONCENTRATE EXCLUSIVELY ON OIL. BRUNET NOTED THAT YAMANI HAD SUGGESTED SUCH A TACTIC AS A HARMLESS CONCESSION TO THE PRODUCERS OF OTHER COMMODITIES.

6. FINALLY, THE GOF ENVISAGED NOT A SINGLE CONFERENCE BUT RATHER A CONTINUING DIALOGUE WHICH WOULD CONSIST OF A SERIES OF MEETINGS. BUT THEY BELIEVED THAT THE PREPARATORY MEETING SHOULD TAKE PLACE AS SOON AS POSSIBLE IN ORDER TO HELP "LOWER THE TEMPERATURE"

BETWEEN PRODUCERS AND CONSUMERS.
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